# What is the price

Price is the amount of money charged for a product or service. However, in no case is price equal to the value of the goods. We must take into account that price has a different meaning for each customer.

Some customers may be put off buying by low prices, while high prices may attract them.

However, it always depends on the type of customer and the product range they are looking for. Low prices are welcomed by customers who are willing to compromise on quality and for whom it is important that the product serves a current need. Customers who seek premium goods and expect quality commensurate with price may be put off.

# Why is price important?

Price is the most important factor that influences the demand for goods. If the price is set correctly, then there is a match between the value of the product to the customer and the interest of the seller or manufacturer of the product.

Objectives of pricing

Before we even start working with price, we need to focus on the general objectives that price entails. Some of the most common objectives include:

## 1. Profit

Profit is the deciding factor for many marketers when setting a price. It is about setting a price at which all costs associated with selling the product (material consumption, staff, premises, etc.) will be covered.

## 2. Market share

This objective is more for experienced marketers who know how to do it. The principle is that the trader tries to attract customers at a low initial price. Too low a price may result in the trader making a loss. However, once it has achieved a significant market position, it can recoup this loss and increase the price of the product.

This objective is immoral for some traders because it aims to exclude from the market those traders who cannot compete with a low price. Further, there are some pitfalls here. If another player enters the market and does the same as the trader before him, the product may be so below the market price that it is not worthwhile for traders to continue selling it.

## 3. Sales volume growth

This is primarily a short-term goal (e.g. Black Friday). These promotions are designed to sell off goods that have been out of stock for a long time. The aim of this method is not profit as such, the aim is to ensure that there is enough space in the warehouse for the new arrivals. This method is most often used towards the end of the year.

## 4. Profit maximisation

This is a method that aims to maximize the total revenue from the sale of a product to the cost incurred.

If you are selling a product for £1,200 and find that there is an unusual demand for the product and no one has it in stock except you, you can increase the price of the product until someone else has it in stock again.

In this case, think about the price sensitivity of your customers. Maybe customers will buy from you because they have a need to have the product. However, when the product is back in stock, they will buy it cheaper from someone else. You may have seen this method first hand last year when there was a huge demand for disinfectants. Traders who had the products in stock sold them at exorbitant prices. Disinfectant gel, which normally costs around CZK 60, cost up to CZK 300 at the beginning of the pandemic. This is 500 % more than usual.

## 5. Premium goods

In this case, the price of the goods is proportional to the quality of the product. A high price often gives the customer the impression of a high quality and premium product. We can take the example of Apple, for example, where it is clearly seen that it is a premium product where the customer is happy to pay extra.

# Methods of pricing

There are many methods by which products and services can be priced. Each method has its pros and cons, so it is impossible to say which is the best. In addition, everyone does business a little differently and has different experiences, so the same method may not be appropriate for a different trader in the same industry.

* Cost-based pricing
* Demand-driven pricing
* Competitive pricing
* Low price strategy
* Skimming pricing strategy
* Penetration pricing strategy
* Prestige pricing
* Psychological pricing strategy

## Cost-oriented pricing

This method is based on cost, where the final cost or a percentage of the total cost is added to the price of the product.

Cost + profit = price

## Demand-driven pricing

This method is the opposite of the previous method. The objective of this method is to sell the product at the highest possible price. That is, if we sell a particular brand of headphones, we look at what the market price is - i.e. what is the lowest and highest amount they sell for.

## Competitively oriented price

This method is based on the competitors' prices. This means that you can price your products slightly below, above or the same as your competitors. This strategy is most often used by companies that are in a very competitive environment and a slight price difference can be critical for customers.

If you sell backpacks and find that your competitors' prices range from 600 to 1,800, set your price somewhere in between those values.

Competitive pricing is one way to stay ahead of the competition and maintain price momentum.

## Low price strategy

A low-price strategy involves a firm initially selling products at a high price, which it gradually lowers. This is sometimes referred to as a discount pricing strategy and is most commonly used by retailers selling seasonal goods, furniture or clothing.

## Price skimming strategy

Skimming strategy is based on the principle that firms charge the highest possible price for products and reduce it over time. This method can be seen, for example, in technology-oriented products such as phones, computers, laptops, etc. This method helps to pay for the cost of buying that product that has been in stock for a long time. This method may have a lot of detractors because they paid more for the same product back then.

## Penetrative pricing strategy

This pricing strategy is most often used when a company enters a market with an extremely low price, effectively diverting attention and revenue from competitors who have higher prices. Penetration pricing is not sustainable in the long term and is usually used for a short period of time.

## Prestige pricing

This strategy is often referred to as premium or luxury pricing and works on the principle that firms price their products at a very high value in order to present themselves as premium and luxury goods. Prestige pricing focuses on customer perceived value rather than actual value and cost of production.

When used correctly, this method can increase customer loyalty. On the other hand, there is a need to constantly monitor different customer segments and possibly change prices based on where customers differ. Frequent surveys are recommended.

## Psychological pricing strategy

The pricing strategy can be strengthened by the effect of prices set just below the next higher round sum - 99.90 CZK, 99.99 CZK, 1 999 CZK, etc. It is prices like these that have an effect on the human psyche and may appear at first sight to be smaller than they actually are. This pricing strategy is mainly used for products where the seller does not want to give the impression of premium goods.